Inputs by the Committee for Development Policy (CDP) for the Elements Paper on Financing for Development

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I. A global financing framework and cross-cutting issues (CDP subgroup on development finance and taxation)

Strengthening the FfD institutional architecture *(José Antonio Ocampo)*

The world has created a system of international financial institutions that includes the Multilateral Development Banks and the International Monetary Fund, but it is weak in the areas of debt restructuring and international tax cooperation. In debt the world needs to create a permanent institutional mechanism to facilitate the restructuring of sovereign debts to manage problems of over-indebtedness. In tax cooperation, the best reform would be to transform the UN Committee of Experts on International Cooperation in Tax Matters into an intergovernmental organ, and to strengthen the UN Secretariat in a parallel way to work with the OECD in a complementary way. A global asset registry should also be created to control tax evasion and avoidance.

It is also essential in all areas to develop a strong multilevel architecture –thus recognizing that globalization is also a world of open regionalism. This means that there is potential complementarity between global and regional entities, as well as competition between them – which is also healthy. An additional virtue of such an architecture is the strong sense of belonging of medium and small countries to regional institutions, since they have a very limited voice in the global ones. A consequence of this is that the actions of regional institutions respond more strongly to their interests.

An architecture of this type already exists in the case of Multilateral Development Banks, which can undoubtedly continue to improve, particularly by strengthening the cooperation between the World Bank and the regional institutions. This arrangement should be extended to the international monetary system and international tax cooperation, where these networks are half empty. For this reason, creating a broader group of regional monetary organizations and regional tax cooperation bodies should be one of the priorities of international financial reforms.

How can multilateral development banks help provide and finance global public goods?[1] *(Annalisa Prizzon)*

The impact of cross-border challenges — climate change, global public health, fragility — are escalating and are becoming more frequent and protracted. Financing needs to address immediate consequences and invest in transforming societies and economies are soaring and becoming even more urgent. Many global public goods (GPGs) are, however, undersupplied. This can partly be explained by the underlying theory of the under provision of GPGs (Kaul, 2012). When benefits are non-excludable (it is hard to prevent others from experiencing them) and non-rival (consumption by one party does not reduce the amount to be consumed by others), countries might not be willing to borrow and bear the costs when benefits can extend beyond their own borders.

Multilateral development banks (MDBs) are, in principle, well placed to help finance and provide solutions to global challenges. MDBs – such as the World Bank and the regional development banks – can use their regional or global reach and share learning across client countries (Kaul, 2017). Their country-specific operations give MDBs a platform to implement those country-level actions that are needed globally (Kanbur, 2016). Their staff are directly involved in project negotiation and design and oversee project implementation, as well as advising governments on policy reform. MDBs also offer financial terms that are better than countries could usually get from capital markets (Prizzon et al., 2022). At a time when government shareholders are trying to balance the books in the aftermath of the Covid-19 crisis, MDBs offer good value for money as shareholder contributions have a much larger leverage effect than any other financing options (Humphrey and Prizzon, 2020).

But MDBs were not set up with the provision and financing of global challenges as their core function. While the work of the MDBs in a few areas supporting global action has been important, and often innovative, it has shortcomings. First, MDBs do not have adequate funding to respond to global challenges (Kanbur, 2016). Second, they have approached global challenges as if they were development issues: relying on their conventional country-based operation model and using country loans as their main instrument. For example, the low uptake of vaccine facilities has shown that the country-based lending model of MDBs does not generate the right incentives for the financing and procurement of global public goods (GPGs) (Hart et al., 2021). MDBs have not been set up to identify areas where global and domestic priorities could come together, e.g. pushing for clean energy as a solution to energy access, highlighting the risk of stranded assets from fossil fuel production,

[1] This section is largely based on Prizzon et al. (2024).

investing in active transport (cycle lanes and sidewalks) that serves the poorest over roads and airports.

How can MDBs support the provision and financing of global public goods?

Any discussion of reforming MDBs' operational models to tackle global challenges requires a much better understanding of what activities matter, how MDBs contribute to them and what the major constraints are behind their under-provision or low uptake (Prizzon et al., 2024).

Climate change mitigation. MDBs do not have a specific mandate to address climate change, as Parties to the UNFCCC do, and they are also not beholden to the commitment of providing 'adequate and predictable funding'. However, MDBs are well-placed to support client countries in their decarbonisation pathways, and to do so in ways beyond finance. MDBs can leverage established processes for regular country engagement to align development and climate objectives, they are working to help client countries improve their mitigation ambitions in their Nationally Determined Contributions (NDCs) and they are supporting client countries with reforming fossil fuel subsidies and actively working with client countries' regulators to promote environmentally sustainable practices within the banking and financial sectors.

Global public health. Not all of the challenges lower-income countries face in promoting global public health can be addressed by MDBs. The involvement of MDBs in global public health varies significantly depending on their mandates and expertise. At the same time, MDBs active in this space can play a crucial role in sharing best-practice governance arrangements and investing in the human capital needed to embed new technologies within new and existing healthcare organisations. They can help strengthen country-level health systems, mediate the incoherent global governance of Antimicrobial resistance (AMR), help establish institutions that can invest in Research and Development and regional facilities and explore options to allocate catalytic funding to support cross-sectoral collaboration and incorporate AMR programmes into national budgets and development projects.

Peace and security. Some countries are reluctant to use resources from MDBs to fund projects supporting peace and security, as this might divert resources from what they see as more important national priorities. MDB mandates that prohibit political activity have been interpreted by management and Boards as limiting consideration of 'political' issues in their operations a d procurement policies and financial and disbursement processes do not allow a quick response and dismiss political economy implications.

MDBs have implemented or could consider measures to address these operational constraints to support fragile and conflict-affected countries. Firstly, MDBs have options to bypass their limited involvement in politically inflected issues. Secondly, MDBs have flexibility in their operational policies for a more agile response in conflict and fragile contexts, but this requires staff awareness and management tolerance for informed risk-taking, which may depend on the corporate priority of the country programme. Thirdly, peace and security are inherently multi-disciplinary and development assistance may be necessary but insufficient to achieve results. Effective partnerships require an investment of staff and resources for exchanging knowledge, producing strategies that engage multiple policy communities, and joint oversight of implementation and results.

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An IMF-Managed Instrument for International Liquidity Provision for Emerging Markets and Developing Economies[2] *(Liliana Rojas-Suarez)*

There is a critical flaw in the current international financial architecture: it fails to address the fundamental asymmetry between countries that issue reserve currencies and those that do not, leaving the latter vulnerable in the face of a systemic liquidity crisis. A typical characteristic of these crises is the sudden stop of international credit, which can rapidly spread across markets and borders. These contagion effects can escalate into a major financial crisis leading to severe economic collapse and widespread hardship.

Advanced economies can mitigate the adverse effects of systemic liquidity crisis through their lender-of-last resort facilities, as they have the capacity to issue hard currencies; that is, currencies that are widely traded in international capital markets. In contrast, emerging markets must rely on large accumulation of advanced economies' currencies, namely by accumulating expensive international reserves, which do little to prevent contagion.[3]

The Latin American Committee on Macroeconomic and Financial Issues (CLAAF by its Spanish acronym), which I chair, proposes a solution to this problem: An IMF-managed Emerging Market Fund (EMF). The EMF would be capable of making temporary purchases of emerging market sovereign debt in secondary markets when there is evidence of financial contagion unwarranted by countries'

[2] This note is based on CLAAF (2024), "A Proposal for the IMF: A New Instrument of International Liquidity Provision for Emerging Markets at Developing Economies", Center for Global Development, October.

[3] While issuing debt in international capital markets denominated in local currency can help emerging markets reduce currency mismatches and vulnerability to foreign exchange fluctuations during stable periods, it is not enough during systemic liquidity crises. Experience shows that in such crises, there is a sharp rise in investors' risk aversion, triggering a sell-off of risky assets and a shift to safer assets, such as US Treasury bonds.

economic fundamentals. In this way, the EMF would act as a true lender of last resort in hard currency for emerging markets, akin to the actions taken by advanced economies' central banks during systemic liquidity crises, providing liquidity to bond markets to avoid sharp disruptions in these markets and the consequent spikes in financing costs.

The proposed EMF is designed to complement the IMF's existing tools for liquidity provision but differs significantly from current instruments. Unlike most IMF facilities, EMF interventions are not loans. Instead, they focus on stabilizing international bond markets to contain contagion, adopting a systemic perspective rather than a country-specific approach. This distinguishes the EMF from the IMF precautionary lending facilities like the Flexible Credit Line, which are granted on a country-by-country basis. Critically, countries would not need to request activation of the EMF, avoiding the stigma often associated with seeking IMF assistance. The EMF management would have the authority to decide when and how to intervene, as well as the basket or index of countries subject to its intervention.

For the EMF to be credible and effective in dealing with systemic liquidity crises, securing adequate funding is essential. This is crucial to preventing speculative attacks against the emerging market bonds the fund seeks to stabilize. The mechanisms for funding the EMF depend on its governance structure, with several options available. One option is to manage the EMF within the IMF's balance sheet, allocating part of its unused lending capacity to the fund. Another option is having the EMF managed by the IMF but segregated from its balance sheet, with an EMF independent Board, and funded by pre-committed swap lines from advanced economies' central banks. Both options have benefits and challenges and the final decision, which may include consideration of other alternatives. should be left to the discretion of the IMF and its shareholders. Based on previous crisis episodes, it is estimated that adequately funding the EMF would require around USD 300 billion, equivalent to the outstanding stock of emerging market sovereign short-term international bond debt. This amount is relatively modest compared to interventions by advanced economies.

The instability that many emerging markets face during systemic liquidity crises could be avoided if the EMF were already in place before the eruption of these crises. Moreover, it would reduce the pressure on emerging markets to hold excessive international reserves, freeing up resources that could be better invested in growth and development.

Aligning FfD with social goals of Agenda 2030 *(Sakiko Fukuda-Parr)*

There is little disagreement on the need to mobilize funds to finance the implementation of the SDGs and to the social goals in particular.[4] The financing gaps for critical items – such as target 1.3 for social protection for all – run into well over a trillion. But increasing financing will not be enough. What is also needed is a policy change to realign the funding to sustainable development priorities – with particular attention to priorities for equity (leave no one behind) and realizing basic economic and social rights – and to address a number of systemic issues. These require multi-stakeholder action, both national and international.

First, increasing domestic revenue mobilization will be essential but too often governments resort to regressive taxation such as consumption taxes and other taxes on low income households. There is increasing political disaffection as illustrated by the demonstrations against tax hikes in Kenya in June 2024. There are considerable opportunities for revenue raising by progressive taxation, such as wealth taxes as proposed by the G20, taxing corporations and the financial sector, taxes on windfall profits, digital services, crypto currency, among others.

Second, on the expenditure side in national budgets, priorities for social goals include adequate expenditures for universal social protection as well as broader provisioning of essential public infrastructure for basic economic and social rights (e.g. education, health, water, roads, etc.), public services and public goods. Expenditures are not distributionally neutral and more can be done for example to introduce effective gender responsive budgeting systems, and reduce subsidies on public bads.

Government policy space is also severely constrained by austerity policies that continue to severely constrain government spending, undermining the achievement of social goals. These policies are increasingly questioned on the grounds of both economic theory and management, and empirical evidence on the persistence of austerity policy conditionalities from international lenders and their negative social consequences (see for example Kentikelenis and Stubbs, OUP 2023, that documents negative effects of IMF conditionalities on income inequality and health outcomes).

Third, systemic obstacles are a key constraint to raising revenue and channeling them to social priorities. More action is needed by major stakeholders in international finance to address long standing international institutional arrangements: debt resolution for developing countries (see CDP report 2023); international tax cooperation to reduce tax avoidance and illicit financial flows (see CDP report 2018); and implementation of intellectual property regimes for equitable financing and distribution of global public goods such as vaccines (see CDP report, 2024).

[4] The term social protection has been used in some of the FfD analysis rather than social goals. The term social protection is sometimes used in a narrow sense to refer to social safety nets, and sometimes to refer to a broader notion social provisioning for human capabilities including infrastructure, services, institutional arrangements, global public goods. Because this ambiguity creates confusion, this note uses the term social goals rather than social protection goals.

II. Action areas

d. What is necessary for trade to be an engine of development? *(CDP trade subgroup, with input from Ahmed Galal, Ha-Joon Chang, Trudi Hartzenberg, Carlos Lopes and Natalya Volchkova)*

The 13th Ministerial Conference of the World Trade Organisation (WTO) took place earlier this year. The outcomes reflect how difficult it has become to find agreement on a range of trade issues, including agriculture. Regional trade agreements have become for many countries the preferred option and have increased in scope and complexity since the mid-1990s. Trade reform has also had to contend with the impact of regional conflicts and growing policy uncertainty. Several priorities for trade to drive development can be considered.

Develop an effective differential treatment dispensation for trade governance. The WTO Trade Facilitation Agreement offers important guidance; it is anchored on self-selection of commitments by members taking account of their circumstances, needs and capacities, and time frames for implementation that make sense for them, supported by financial and technical assistance.

It is important *not just to fully implement existing special and differential treatment (SDT) as it stands but to seek to update, and (if necessary) expand, SDT arrangements, as the changing world (climate change and other ecological crises, new technologies, geopolitical shifts) has thrown up new challenges and barriers to developing countries.*

Agree on disciplines to address the proliferation of subsidies and unilateral protective measures. Unilateral measures include climate measures such as the European Union's (EU) Green Deal, including the Forestry Directive and the Carbon Border Adjustment Mechanism (CBAM). These measures make it difficult for late-comers, especially least developed countries (LDCs), to industrialise and to secure access to markets such as the EU. This makes a broader discussion about trade-industrial policy space important.

The WTO Agreement on Fisheries Subsidies is making good progress and it recognizes the interests of developing countries and LDCs in this sector. Notably a WTO Fish Fund has been established and will be operated by the WTO in collaboration with partner organisations, including the Food and Agriculture Organization (FAO) of the United Nations, the World Bank Group, and the International Fund for Agricultural Development. *This model, supporting trade commitments with finance and technical assistance, should be replicated in other substantive trade areas, especially for developing and LDCs.*

Conclude new agricultural trade rules. Current agricultural trade rules do not address market access challenges of developing countries, the impact of climate change and global food insecurity. LDCs and net food-importing developing countries (NFIDCs) are especially impacted by export restrictions, and resulting rising global prices. Issues such as technology transfer (proposed by the African Group) and a financing facility for food imports (supported by the FAO) should feature on the agricultural trade agenda.

Support the WTO Investment Facilitation for Development (IFD) Agreement, to improve the investment and business climate and make it easier for investors to invest and operate in all sectors. In the case of disputes, parties may approach the WTO Dispute Settlement Body; there is no investor-state dispute settlement. So far 125 WTO members, across all regions, including 89 developing countries and 27 LDCs, are participating. A notable regional investment facilitation development is the African Continental Free Trade Area's (AfCFTA) Protocol on Investment, in which the AfCFTA State parties specifically commit to promote investment in renewables to support the energy transition. A closely related matter is climate tech transfer. Supporting access to climate tech – as a global public good - will serve the global public interest and facilitate climate investment in developing and LDCs.

Enhance good governance in services domestic regulation. Trade in services, digital trade and trade in green technologies can contribute to trade-led structural transformation and convergence between developing and developed economies. Services are regulatory intensive and in December 2021 a declaration was adopted by 67 WTO members, to support good regulatory practice in domestic services sectors, based on principles of transparency, legal certainty and predictability, regulatory quality and facilitation. The declaration connects to the IFD Agreement to improve the investment environment and financial services governance. Developing countries have transition periods for implementation and LDCs do not implement until they graduate; *they will need financial and technical support for domestic regulatory and institutional capacity development*.

How can the FfD agenda support trade as an engine for development? Access to finance, in its many manifestations matters, whether access to trade finance (e.g. letters of credit or export loan guarantees for a small-scale trader) or finance for energy infrastructure or climate finance to support agriculture, which is also connected to supporting trade. Complementarities between development finance and private finance are also relevant.

Multilateral Development Banks (MDBs), for example, have committed to support a just transition that promotes economic diversification and inclusion. This should include investment in sustainable agriculture (key to mitigation and adaptation) and investment in trade infrastructure such as green corridors and digitisation of border management processes. Access to private finance must be effectively promoted through the trade in services agendas. Financial inclusion, should be an overall goal of financial services liberalisation and regulatory harmonisation, to improve especially, access to trade finance, working and start-up capital, for small and medium firms, women, and other marginalised entrepreneurs.

g. Science, technology, innovation and capacity-building: New approaches to financing for innovation *(CDP subgroup on policy pathways for innovation)*

Innovation can be a powerful driver of sustainable development, yet that potential remains vastly under-realized, particularly in developing countries but also for public interest purposes across the world. The current global crises and shifts in the global economy and innovation landscape are reshaping challenges and opportunities for harnessing technology for sustainable development. That requires a reassessment of science, technology and innovation policy frameworks by national Governments and global institutions to create an effective national and global innovation system fit for the twenty-first century. Intellectual property rights are one of the key policy levers in a functioning innovation ecosystem to advance development, structural change and equity, and build resilience to crises. Developing countries require policy frameworks for innovation tailored to their specific priorities and could make more effective use of the existing policy space to pursue priorities for development, equity and productive capacity. The global system in place to support innovation for development needs to be reassessed to be made fit for purpose to ensure innovation for global and regional public goods and for countries to address the challenges of the twenty-first century.

Specifically related to the FfD4 agenda, the Committee highlights the importance of:

1) Exploring alternative approaches that comprehensively address the multiple dimensions of some of the central development challenges of our time, such as a successful and equitable energy transition in developing countries. For example, ensuring the energy transition in developing countries, particularly least developed countries, will require simultaneously expanding access to clean energy and deploying clean energy infrastructure, which will face multiple constraints, including limited finance, concentration of clean technology intellectual property rights and supply chains, and unilateral environmental-related trade measures. A feasible approach is technology co-development and co-ownership with mechanisms rooted in equity and transparency, innovative finance for technological development, and using clean technology solutions to improve livelihoods and build the resilience of vulnerable communities.

2) Developing and implementing better models of collaborative research and development to address challenges such as climate change and to promote the expansion of research and development in developing countries. One example is the CGIAR model, in which research is patented but access to technology is free. There are multiple other forms of collaboration and financing models for innovation, research and development, each presenting solutions and lessons for different situations.

An excerpt of its report to ECOSOC can be found here (the full report is available at https://undocs.org/E/2024/33).